

Business

By Daniel M. Isard

All
MONEY,
NO
MATH!!!



I have learned that many of the 300 articles I have written over the past three decades have required the reader to have a dictionary, a computer with Microsoft Excel, and an abacus or calculator nearby. Well, if you typically will not read past the opening paragraph since you do not possess these tools, you are in luck. This article does not require any math. Yep, my challenge is to explain a difficult financial concept using no math.

Experience has taught me that if I cannot use math to explain a concept, I should rely upon logic to make the conclusion convincing. Logic requires all parties to have an open mind. When dealing with the logic of business, the biggest obstacle is the logic-blocking mechanism called fear. Funeral management operates with a great deal of fear. Today, rather than trying to teach someone how to use an Excel spreadsheet, I must overcome fear with my words.

Logic tells me, if you are running a funeral business and you want to run it profitably, there are three things you must do:

- Keep case count level or increase it.
- Keep your overhead in check.
- Make sure revenue/call is going to produce a profit.

This sounds logical. Allow me to address all three without using math.

As to case count, you have to change your jargon. If you are doing X calls, you want to keep doing X

calls or something greater than that number of calls. However just doing calls is misleading. We sort calls into four categories: casketed, noncasketed, trade/shipping and not for profit.

Total calls are important, but you also need to know the types of calls. Casketed calls are arrangements that result in the sale or rental of a casket. Conversely, a noncasketed call does not employ a casket. Trade and shipping calls are calls you do for another funeral provider, either as

their contractor or agent. Not-for-profit calls are those that you do without any intent to profit. These are children's calls, maybe some religious orders, or any call you elect to give away. Add up all four categories to get total calls.

Your focus is casketed calls and noncasketed calls, not "traditional" and "cremation" calls. Why do you care if a body is cremated or buried? If a body is casketed and cremated, the cemetery may lose out – not you! If you have attended any seminar I have conducted in the past 22 years, you know I don't condone the use of the phrase "traditional" calls. The traditional call has died and been buried.

Looking at total calls without drilling down is misleading. I have a client bragging that he is up 20 calls (about 5 percent) over three years. That sounds fabulous on the surface. However, when you look at the breakdown, it is not casketed calls or noncasketed calls that are increasing. His case mix is increasing on trade and shipping calls. He gets \$300 for

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a trade call, and it costs him \$250 in staffing costs, plus wear and tear on the removal car. How can you be happy with \$6,000 of increased revenue when costs are increasing almost that much? Am I logically getting my point across?

When I first came into funeral service the "traditional call" meant a call resulting in a burial. However, since the Federal Trade Commission

began enforcing the Funeral Rule, we have seen cremation increase at a rate no one anticipated. We are now at almost 50 percent. As we tend to charge less for cremation calls, we overprice the burial calls or allow profit margin to go down, as evidenced by the average profit margin falling from 14 percent to 7 percent during this time period.

At this point in the article I would write that this represents a 50 percent decline in profits, but that would violate my promise not to do math. I suspect most funeral homes have overpriced burial calls and their profit margin made up for the decline in the revenue differential.

If you want to keep case count the same, you have to price properly – regardless of the type of disposition. I will not get into the math of pricing for services in this article. I know you cannot just make up a price to charge. It is driven by overhead. If you want to guess at your overhead, then do an educated guess. However, if you want to price

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50 percent of your calls based upon your competitors' pricing, logic tells me that is a losing proposition. You have an overhead. Pricing must produce the revenue that covers your overhead. I am not against giving an indigent family services for free. I am against mimicking competitors' pricing without adjusting overhead.

Serving a family by burying or cremating their loved one is an honor. Yours is a ministry of sorts. I get that. I also understand that even ministers have to eat, provide for their families, pay for the roof on the church, and have more in the collection plate than goes out in the mailbox when paying bills.

You can do your ministry only as long as people pay for it. Your ministry has an overhead. Unlike a ministry, you can effectively market and establish how much someone puts into your collection plate. Estimate the number of families you expect to serve in a year and

divide your overhead by that number. You will find out that you cannot have a Nordstrom's level of service at Walmart pricing. Service costs money.

The method of setting prices that this profession has used in the past is wrong. In my experience I have seen funeral homes set prices by several different acronyms:

- BOHDUMC: Be one hundred dollars under my competitor.
- BOHDOMC: Be one hundred dollars over my competitor.
- LMCPADI: Let my CPA do it.
- TAWG: Take a wild guess.

Before introducing logic into the discussion, you must assert that you want to be profitable. The day of just getting the call is over. Now, if you get a call, it needs to be a profitable call. Unfortunately, nothing will help you with running a profitable funeral home except doing the math. That is for another article because we are math free on this one.

Of course you can still provide

service for the poor, but "poor" is a relative word. Many a family will say, "We don't have much money." That doesn't make them poor. If a family needs three or more death certificates, then they are probably not indigent. Death certificates are used to transfer wealth or property. Indigent people, by the very definition, have no wealth or property.

If we are going to keep overhead in check, start with the largest-cost item. The highest single cost in any service business is staff. In funeral service, staffing costs represents more than a quarter of the revenue for each call. If you want to provide cost-reduced services, you must reduce the cost of the staff expense.

The funeral arranger or person talking to a family on the phone is on the front line. While about 80 to 90 percent of all consumers are not price driven, 10 to 20 percent are. Designate one or two people in your business to deal with the price shopper on the phone or in person.

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After maintaining or increasing case count and keeping overhead in check, the third thing is to make sure your prices are set properly. There is one simple way to check that. Look at your bank account. If the bank account is increasing in value, then you might be doing something correct. If you think you are doing everything correct but the bank account is not rising, then get the calculator, computer with Excel spreadsheet, new accountant, and dig out my older articles and use math. Logic tells me that ultimately your bank account will determine how good you are without employing math.

Let me conclude by telling the story of my 20th high school reunion. The committee honored the most successful of all of our 1,200 graduates. To all of our chagrin, Louis Zeppermann was the most successful. He was worth more than \$10 million!

The crazy thing was, he was kicked out of school, a D student, and no one liked him. After some misdeeds, he was told to join the military or he'd have to go to jail. He told the story of how he was sent to Japan as a private in the Army. His job was to dispose of metal

stamping from the production of shell casings. He hired a company to dispose of them at \$100 a ton. Within a few months, he founded a company that had a smelter. They melted the used stamping and resold new metal sheets to the Army at \$20,000 ton. Louis created a company that removed and melted the metal. It cost him about \$2,000/ton. His conclusion to the story was, "It is amazing how much money you can make on a 10 percent markup!" He is still a D student, but a rich one. He didn't use math either! •

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